

DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
AND**

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT
WITH CONSOLIDATING INFORMATION**

DECEMBER 31, 2015 AND 2014



GILMORE JASON MANLER, LTD
PROFESSIONAL SERVICE, TRUSTED ADVISOR

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Stockholders
Doylestown Telephone Company and Subsidiary
Doylestown, Ohio

We have reviewed the accompanying financial statements of Doylestown Telephone Company (a corporation) and Subsidiary (collectively, "the Company") which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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Consolidating Information

The consolidating information on pages 21 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our reviews, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

Diemore Gavin Mader, LTD

Findlay, OH
June 7, 2016

DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets		
Cash	\$ 149,210	\$ 209,416
Telecommunications accounts receivable (net of \$159,391 in 2015, and \$292,640 in 2014 for doubtful accounts)	182,839	118,129
Other accounts receivable (net of \$14,254 in 2014 for doubtful accounts)	223,435	234,262
Accounts receivable - officer	184,682	143,051
Materials and supplies	89,869	81,941
Prepaid expenses	49,291	60,838
Deferred income tax	42,184	83,936
Total current assets	921,510	931,573
Property, plant and equipment		
Land	144,062	144,062
Plant and equipment	15,030,222	17,711,444
Total property, plant and equipment	15,174,284	17,855,506
Less: accumulated depreciation	(12,412,654)	(14,915,660)
Net property, plant and equipment	2,761,630	2,939,846
Other assets		
Cellular partnership investment, at cost	1,290,082	1,290,082
Com Net investment, at cost	18,500	18,500
Available-for-sale securities, at market	1,530,577	1,794,372
Bonds held to maturity	19,983	19,983
Horizon Telcom investment, at market	9,971	8,378
Deferred income tax	1,301,990	1,292,599
Deposits	2,790	3,790
Total other assets	4,173,893	4,427,704
Total assets	<u>\$ 7,857,033</u>	<u>\$ 8,299,123</u>

See independent accountant's review report.

The accompanying notes are an integral part of these financial statements.

DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 142,722	\$ 189,491
Accrued state and local tax	3,489	3,736
Accounts payable - withheld and collected taxes	131,960	143,591
Customer deposits	400	500
NECA accrual	0	6,203
Accrued property tax	9,500	8,619
Accrued other taxes	7,295	14,044
Total current liabilities	<u>295,366</u>	<u>366,184</u>
Other liabilities		
Long-term NECA accrual	0	7,073
Total other liabilities	<u>0</u>	<u>7,073</u>
Total liabilities	<u>295,366</u>	<u>373,257</u>
Stockholders' equity		
Common stock (500 shares authorized, 353 shares issued and 352 shares outstanding, \$10 par)	3,530	3,530
Retained earnings	7,705,520	7,991,550
Treasury stock	(14,003)	(14,003)
Accumulated other comprehensive loss	(133,380)	(55,211)
Total stockholders' equity	<u>7,561,667</u>	<u>7,925,866</u>
Total liabilities and stockholders' equity	<u>\$ 7,857,033</u>	<u>\$ 8,299,123</u>

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DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Local telephone service revenues	\$ 1,933,988	\$ 1,879,772
Telephone access revenues	1,030,203	1,066,807
Basic, premium, pay-per-view TV channels	913,897	891,598
Internet revenues	481,133	487,937
Cable modem revenues	452,098	493,750
Security service revenues	31,390	61,426
Advertising and consulting revenues	81,905	79,128
Miscellaneous revenues	280,850	348,695
Uncollectible revenues	25,210	(59,924)
Total operating revenues	<u>5,230,674</u>	<u>5,249,189</u>
Operating expenses		
Plant specific operations expenses	2,516,003	2,556,868
Plant nonspecific operations expenses	148,827	180,196
Depreciation expense	385,553	451,675
Amortization expense	341	341
Customer operations expenses	1,211,700	1,123,294
Corporate operations expenses	1,252,563	1,291,686
Total operating expenses	<u>5,514,987</u>	<u>5,604,060</u>
Loss before operating taxes	(284,313)	(354,871)
Operating taxes (benefit)		
Federal income benefit	(22,612)	(8,200)
Provision for deferred income taxes	(85,544)	(120,589)
State and local tax expense	14,439	18,378
Other operating taxes	18,563	18,159
Total operating benefit	<u>(75,154)</u>	<u>(92,252)</u>
Net operating loss	\$ (209,159)	\$ (262,619)

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DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Nonoperating income (expense)		
Realized gain from sale of investments	\$ 23,506	\$ 5,348
Gain on disposition of plant	0	(221)
Dividend and interest income	47,336	48,977
Special charges	(1,400)	(1,925)
Interest expense	(4)	(14)
Other nonoperating income - net rental income	4,345	3,446
Nonoperating federal income tax expense	(22,612)	(8,200)
Nonoperating deferred income tax expense	(117,905)	(28,745)
Total nonoperating income	<u>(66,734)</u>	<u>18,666</u>
Net loss	<u>(275,893)</u>	<u>(243,953)</u>
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on available-for-sale securities	<u>(78,169)</u>	<u>82,130</u>
Net gain (loss) recognized in other comprehensive income	<u>(78,169)</u>	<u>82,130</u>
Comprehensive loss	<u>\$ (354,062)</u>	<u>\$ (161,823)</u>

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DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net loss	\$ (275,893)	\$ (243,953)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	385,553	451,675
Amortization expense	341	341
Provision for deferred income tax	32,361	(91,844)
Loss on disposition of plant	0	221
Realized gain from sale of investments	(23,506)	(5,348)
(Increase) decrease in current assets:		
Telecommunications accounts receivable	(64,710)	37,543
Other accounts receivable	10,827	75,269
Deposits	1,000	0
Accounts receivable - officer	(41,631)	(53,542)
Materials and supplies	(7,928)	(11,467)
Prepaid expenses	11,547	(11,088)
Increase (decrease) in current liabilities:		
Accounts payable	(46,769)	(22,314)
Accrued state and local tax	(247)	(175)
Accounts payable - withheld and collected taxes	(11,631)	3,745
Customer deposits	(100)	(50)
NECA accrual	(13,276)	(38,923)
Accrued property tax	881	(340)
Accrued other taxes	(6,749)	(210)
Net cash provided by (used in) operating activities	\$ (49,930)	\$ 89,540

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DOYLESTOWN TELEPHONE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	\$ (207,678)	\$ (210,713)
Purchase of securities	(439,756)	(217,475)
Sale of securities	<u>647,295</u>	<u>225,220</u>
Net cash used in investing activities	(139)	(202,968)
Cash flows from financing activities		
Payment of dividends	<u>(10,137)</u>	<u>(9,821)</u>
Net cash used in financing activities	<u>(10,137)</u>	<u>(9,821)</u>
Net decrease in cash	(60,206)	(123,249)
Cash at beginning of year	<u>209,416</u>	<u>332,665</u>
Cash at end of year	<u>\$ 149,210</u>	<u>\$ 209,416</u>

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